

GHQ PRORATE TYPE TABLE

PRORATE TYPE	AA	AB	AI	AO	AP	AQ
MAIN ACCOUNT	1320	6112,6121 6115,6122 6116,6123 6124	6211,6220 6212,6231 6215,6232	6311	6341	6351
PRORATE TYPE	AR	AS	AT	AU	AV	AW
MAIN ACCOUNT	6362	6411	6421	6422	6423	6424
PRORATE TYPE	AX	AY	AZ	A1	A2	A3
MAIN ACCOUNT	6426	6511,6512	6531,6534 6532,6535 6533	6611 6612 6613	6621	6622
PRORATE TYPE	A4	A5, A9	A6	A7		
MAIN ACCOUNT	6623	6711,6724 6712,6725 6721,6727 6722,6728 6723,8672	6726	7370		

PROPRIETARY

MID PRORATE TYPE TABLE

PRORATE TYPE	AA	AB	AI	AO	AP	AQ
MAIN ACCOUNT	1320	6112,6121 6115,6122 6116,6123 6124	6211,6220 6212,6231 6215,6232	6311	6341	6351

PRORATE TYPE	AR	AS	AT	AU	AV	AW
MAIN ACCOUNT	6362	6411	6421	6422	6423	6424

PRORATE TYPE	AX	AY	AZ	A1	A2	A3
MAIN ACCOUNT	6426	6511,6512	6531,6534 6532,6535 6533	6611 6612 6613	6621	6622

PRORATE TYPE	A4	A5, A9	A6	A7
MAIN ACCOUNT	6623	6711,6724 6712,6725 6721,6727 6722,6728 6723,672	6726	7370

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MONTHLY UNITS DATA REPORTING

Data Provision

The Contract Administrator is responsible for tracking and providing units data. Units data must be provided on Form SW-2681 to the Manager-Affiliate Billing, One Bell Center, 38-S-3, each month for determining billable amounts. The Contract Administrator may choose to develop a mechanized Form SW-2681 which does not follow the format of the official form exactly. These will be acceptable if the form is labeled SW-2681 and all of the necessary information is present. Form SW-2681 must be received by the Manager-Affiliate Billing no later than the fifteenth calendar day of the month following the month in which the service was provided. If the fifteenth calendar day falls on a weekend, Form SW-2681 must be received by the Manager-Affiliate Billing no later than the Monday following the fifteenth.

Form SW-2681 cannot be prepared and submitted until a Form SW-2680 has been submitted for the addendum.

Positive Reporting

Form SW-2681 must be provided by the due date even if there are no units for a specific month. The schedule and addendum number must be on the form with a statement of "NOTHING TO REPORT" or zeroes entered in the Units Provided field.

Data Estimation/Adjustments

If it is necessary to estimate units data, the Contract Administrator submits the estimate on Form SW-2681. The Contract Administrator is responsible for tracking actual versus estimated units and adjusting the next month's units to reflect any differences. The adjustment is made by submitting another Form SW-2681 (using original billing month) indicating additional charges or a credit for overestimated charges. The word 'ADJUSTMENT' should be on top of SW-2681.

Nonrecurring Charges or Special Charges

Form SW-2681 is also used to report the billing of nonrecurring (special) charges. For instance, travel expenses incurred while providing service, unforeseen additional one-time expenses, etc. These charges must be entered in the boxed in area at the bottom of the Form SW-2681T (see Page 25, G).

A Job Function Code (JFC) must be entered in the JFC field. The JFC should be that of the person performing the service or in effect related to that service. Only one JFC per special charge can be entered. The account, if known, should be entered in the ACCOUNT field. Note: The account that is associated with a JFC may be found in the SATRN Account and Expenditure Dimension Guide.

PROPRIETARY

Instructions for Preparation of Form SW-2681, AFFILIATE BILLING DATA - MONTHLY UNITS

- A) Enter the month and year the service(s) were performed, e.g., April 1994 for services provided in April to appear on bills dated May 1994. If the SW-2681 is being prepared for an adjustment, enter the month and year the service was performed or reported to have been performed. Write 'ADJUSTMENT' next to the month and year.

Note: Only one month can be reported in this field.

- B) Enter the schedule and addendum number, e.g., 017-004 which is Official Communications Services (Schedule 017), Official Directory Services (Addendum 004).
- C) Enter the affiliate number for which units are being reported, e.g., 200 would be SBC Asset Management, Inc. If this form is being used to report the monthly units used or the same item or several companies, enter the schedule and addendum number, e.g., 017-004 in B, and then enter the affiliate numbers, e.g., 200, 500, etc., in the affiliate number spaces.
- D) Enter the unit price of the item for which the usage is being reported.
- E) Enter the unit description of item for which usage is being reported, e.g., Line Items-Stock Forms.
- F) Enter the number of units billable by each section, e.g., 3 General Headquarters, or 3 KS, 2 MO, 1 TX. If you are reporting an adjustment, put a minus (-) or a plus (+) in front of the number of units. This indicates that you are subtracting from or adding to what was previously billed for that affiliate.
- G) This section has been provided on the SW-2681 to be used for special charges. Enter the affiliate number for whom the special charge applies, the dollar amount, Account and JFC, and a description of the special charge. Enter General Headquarters, MID or the appropriate state in the Section space. If the income and revenue distribution is to be the same for the special charge as the distribution for the other items of the schedule and addendum, place an X in the "Same Revenue Distribution box." If the distribution is to be different, use the appropriate Income and Revenue Distribution section provided below the special charge section. The preparation of this section is the same as for the Income and Revenue Distribution section of the Form SW-2680, Affiliate Billing Data (Attachment 5, Page 11, Instructions F and G).
- H) The Contract Administrator should enter his/her title, the date and then sign on the signature line.
- I) Forward the completed Form SW-2681 to the Manager-Affiliate Billing, One Bell Center, 38-S-3.

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**MONTHLY UNITS DATA FOR REPORTING BY MARKET AREAS
(SCHEDULES 75, 77, 94 ONLY)**

Instructions for Preparation of Attachment 1 to Form SW-2681T are the same instructions for preparing the SW-2681 (page 20) with the exception of the market area portion.

Contract administrators for these schedules have been made aware that data for these schedules are to be reported by the proper market areas. The Kansas City market should be further split to report the Kansas portion and the Missouri portion.

This K.C. breakdown will allow the contract administrators for the aforementioned schedules to use the Attachment 1 to SW-2681T for reporting both state and market area units. The affiliate billing system will generate the present state reporting, as well as the requested market area reporting, from the data on this form.

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Telephone Company except under written agreement.



Retain 10 Years, Until _____

AFFILIATE BILLING DATA MONTHLY UNITS

MONTH & YEAR IN WHICH SERVICE WAS PROVIDED _____

SCHEDULE & ADDENDUM NUMBER _____

AFFILIATE NUMBER _____	UNIT PRICE \$ _____
UNIT DESCRIPTION _____	
SECTION GHQ MID AR KS MO OK TX	
UNITS PROVIDED _____	

AFFILIATE NUMBER _____	UNIT PRICE \$ _____
UNIT DESCRIPTION _____	
SECTION GHQ MID AR KS MO OK TX	
UNITS PROVIDED _____	

AFFILIATE NUMBER _____	UNIT PRICE \$ _____
UNIT DESCRIPTION _____	
SECTION GHQ MID AR KS MO OK TX	
UNITS PROVIDED _____	

AFFILIATE NUMBER _____	UNIT PRICE \$ _____
UNIT DESCRIPTION _____	
SECTION GHQ MID AR KS MO OK TX	
UNITS PROVIDED _____	

AFFILIATE NUMBER _____	SECTION <input type="checkbox"/> SAME REVENUE DISTRIBUTION
SPECIAL CHARGE TO BE APPLIED TO CURRENT MONTH'S BILL \$ _____	
SPECIAL CHARGE: ACCOUNT _____ JFC _____	
DESCRIPTION OF SPECIAL CHARGE _____	

INCOME AND REVENUE DISTRIBUTION:	
GHQ	
Arkansas _____ % Kansas _____ % Missouri _____ % Oklahoma _____ % Texas _____ % GHQ _____ %	
Enter GHQ Prorate Percentage(s): AS _____ % AS _____ % AY _____ % _____ %	
MIDWEST (LOCATION CODE AA0170 ONLY)	
Arkansas _____ % Kansas _____ % Missouri _____ % Oklahoma _____ % MID _____ %	
Enter Midwest Prorate Percentage(s): AS _____ % AS _____ % AY _____ % _____ %	

APPROVED BY:

CONTRACT ADMINISTRATOR _____

TITLE _____ DATE _____

FOR INTERNAL USE ONLY

☐ Official File Copy, If Checked in Red

PROPRIETARY

SW-2881
(Rev. 6-94)

AFFILIATE BILLING DATA MONTHLY UNITS
BY MARKET AREAS

Month & Year In Which Service Was Provided: _____

Schedule & Addendum Number: _____

Affiliate Number _____ Unit Price \$ _____

Unit Description _____

Market Areas: ARK (K.C.)
(KS MO) St. Louis Oklahoma

Units Provided: _____ (San Antonio) (Austin)

Market Areas: Dallas Houston South Texas Central & West Texas

Units Provided: _____

Affiliate Number _____ Unit Price \$ _____

Unit Description _____

Market Areas: ARK (K.C.)
(KS MO) St. Louis Oklahoma

Units Provided: _____ (San Antonio) (Austin)

Market Areas: Dallas Houston South Texas Central & West Texas

Units Provided: _____

☐ Same Revenue Distribution

Affiliate Number: _____ Section: _____

Special Charge To Be Applied To Current Month's Bill: \$ _____

Special Charge: Account _____ JFC _____

Description Of Special Charge: _____

*Includes Kansas and Missouri 417 & 816.

Approved By: _____

Contract Administrator: _____

Title: _____ Date: _____

For Internal Use Only

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MONTHLY TAX DATA REPORTING

Data Provision

Certain items provided under contract to Southwestern Bell Corporation and to its affiliates by SWBT, are subject to state, local and federal excise tax. Generally tax must be applied to the sales or lease of tangible personal property and telephone services. The Area Manager-Affiliate Transactions coordinates with Corporate Tax and Legal to determine which items are taxable, what tax applies, and the taxing situs (which state, county, city and local transportation sales/use taxes apply based on where the service is performed, delivered, etc.). On the advice of the Area Manager-Affiliate Transactions, the Manager-Affiliate Billing informs the Contract Administrators which items are subject to tax, and provides an initial supply of Form SW-2681T, Affiliate Billing Tax Data. The Contract Administrator prepares the SW-2681T for those items that have been identified as subject to taxes. The SW-2681T('s) is (are) attached to the SW-2681 for that same item and forwarded with the SW-2681 to the Manager-Affiliate Billing. The number of units shown on the SW-2681T must agree with the number of units on the SW-2681 for each taxable item.

Positive Reporting

Form SW-2681T for taxable items must be provided by the fifteenth calendar day of each month even if there are no taxable units for a specific month. The schedule and addendum number and item description must be on the form with a "0" in the first units space if there are no taxable units for the month of the report.

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Form SW-2681T
(Rev. 1/90)

Month and Year of Service Provided _____	A
Affiliate/Schedule/Addendum No. _____	B
Service Description _____	C
Unit Price _____	D
Originating City and State _____	E

Approved by:

PROPRIETARY

PROCEDURE FOR COMPLETING FORM SW-2681T, AFFILIATE BILLING TAX DATA

- A) Month and year the service was provided that is applicable to the taxes being reported.

Note: Only one month can be reported in this field.

- B) Affiliate, Schedule and Addendum number of the service that is subject to taxes.

- C) Description of the service subject to tax.

- D) Unit price of the service subject to tax.

- E) The city and state where the service was originated.

- F) The city(s) and state(s) where the service was delivered.

- G) The number of units of service subject to tax.

- H) The signature of the Contract Administrator.

- I) The date the SW-2681T was signed by the Contract Administrator.

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RECORDS AND AUDIT

In order to enable Buyer to comply with the requirements of Parts 32 and 64 of the Rules of the Federal Communications Commission pertaining to affiliate transactions and any similar state or federal requirements. Seller agrees to:

- (a) Maintain and provide to Buyer upon request complete and accurate records related to all amounts billable to and payments made by Buyer hereunder in accordance with generally accepted accounting principles.
- (b) Notify Buyer prior to destroying or otherwise permanently disposing of such records and, at Buyer's option, transfer such records to Buyer.
- (c) Provide reasonable supporting documentation to Buyer within thirty (30) calendar days after receipt of written notification from Buyer of a dispute as to the amount of any invoice.

Seller further agrees that Buyer will have the right through its accredited representatives to inspect and audit, during normal business hours, the charges invoiced to Buyer under this clause. Should Buyer request an inspection or audit, Seller will make available the pertinent records and files. This right to inspect and audit will not be limited to validating the accuracy of resources utilized by Seller and associated charges invoiced to Buyer but includes, without limitation, the right to inspect and audit:

- (i) The method for determining cost data provided to Buyer.
- (ii) Any cost or pricing data, records or other information pertaining to similar sales to other, nonaffiliated buyers.
- (iii) Seller's accounting policies or practices.

Seller will include any of the aforementioned information on its invoices and other billing documents as Buyer may reasonably require.

PROPRIETARY

Southwestern Bell Telephone Company
Operating Practice No. 125
Nontariffed Activities and Affiliate Transaction

Attachment 7
Page 1
March 1995

PAGE: 1
DATE: 10/07/94
TIME: 5:30:31

SOUTHWESTERN BELL TELECOM
CAN COMPLIANCE REPORT (BY ITEM)
FOR 3 QUARTER, 1994

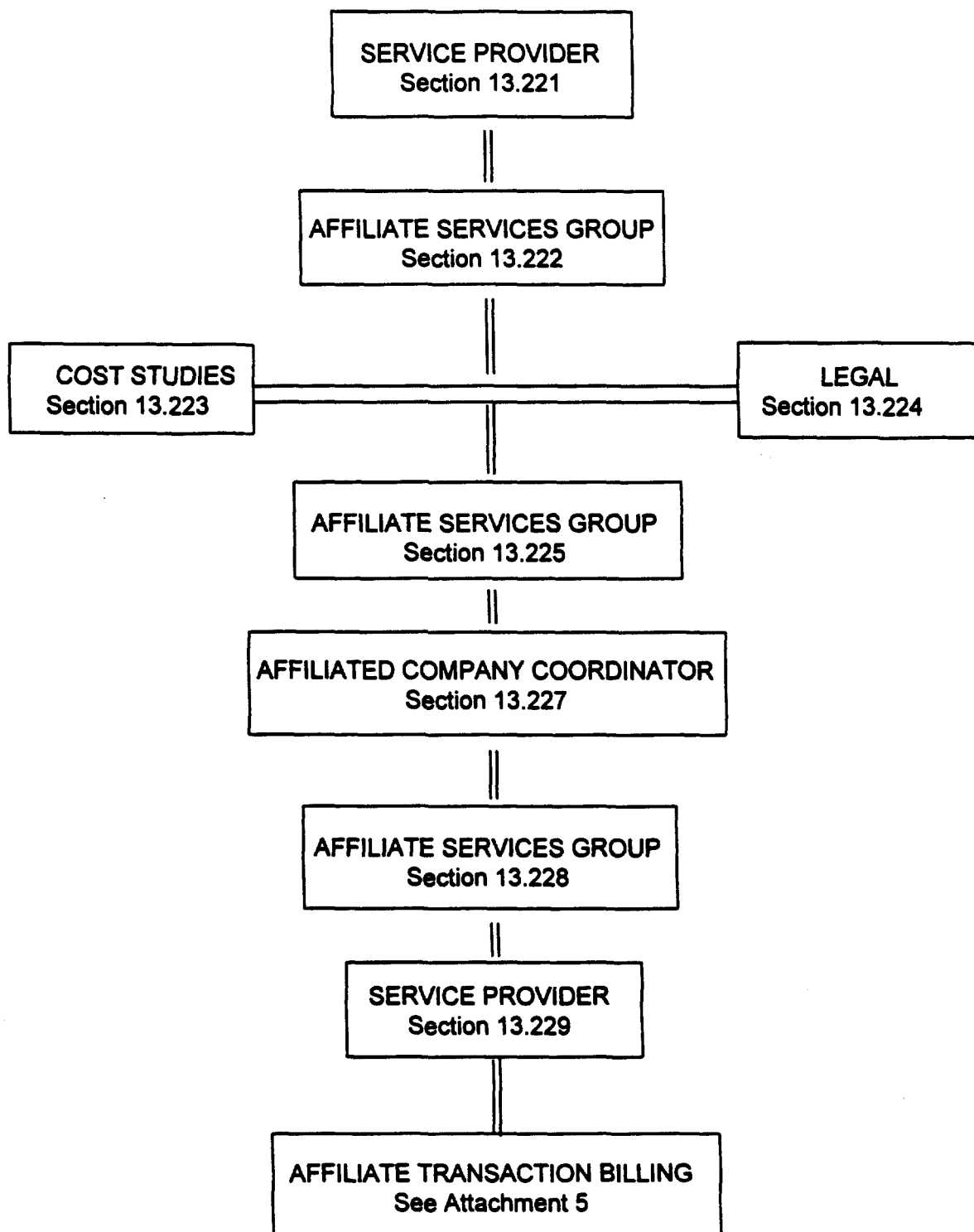
POW ID: 060702-3
USER: KJM

ITEM NUMBER/VENDOR ITEM DESCRIPTION	ITEM NO	CAN SHOT	SHOT ORDER/INVOICE DATE	SHOT INVT UNIT PRICE	CAN UNIT PRICE	C/M EFFECT DATE	CAN UNIT PRICE VARIANCE	-CAN EXTENDED VARIANCE
AS1061 PRI ASSEMBLY	LINDA ALLDAY	N 0417491	7/08/94 9/16/94	1	2204.39	2440.01	4/25/94	.00
	ITEM TOTAL			1				.00
AS27423 FM MANDSET CORB 112 FT								
MT042794AS		N 0896277	6/21/94 7/19/94	10	6.00	7.10	4/25/94	.00
CP95207770		N 0896206	6/27/94 7/19/94	3	6.00	7.10	4/25/94	.00
CC571394AS		N 0896341	6/29/94 7/19/94	124	6.00	7.10	4/25/94	.00
AM0001594AS		K 2097210	7/13/94 7/15/94	10	4.00	7.10	4/25/94	.00
AM071194AS		S 0407326	8/15/94 8/23/94	8	5.04	5.04	7/25/94	.00
JES072094AS		M 0407327	7/11/94 8/23/94	3	6.00	7.10	4/25/94	.00
MS072594AS		I: 0407328	7/20/94 8/23/94	5	6.00	7.10	4/25/94	.00
AF072994AS		S 0407329	7/24/94 8/23/94	13	5.04	5.04	7/25/94	.00
MC072994AS		S 0407331	7/29/94 8/23/94	10	5.04	5.04	7/25/94	.00
RZ072994AS		S 0407332	7/29/94 8/23/94	10	5.04	5.04	7/25/94	.00
MS0801094AS		S 0407333	7/29/94 8/23/94	10	5.04	5.04	7/25/94	.00
MS0801094AS		S 0407339	8/10/94 8/23/94	6	5.04	5.04	7/25/94	.00
CP9017720		S 0407340	8/10/94 8/23/94	20	5.04	5.04	7/25/94	.00
MS0801994AS		S 0407375	7/26/94 8/23/94	7	5.04	5.04	7/25/94	.00
CP9018246		S 0416275	8/19/94 9/07/94	1	5.04	5.04	7/25/94	.00
	ITEM TOTAL			243				.00
AS274302 CORB/LINE/7FT/4CONB								
CPCL200630		N 0595330	7/06/94 7/19/94	60	2.30	2.30	4/25/94	.00
	ITEM TOTAL			60				.00
AS274303 CORB/LINE/14FT/4CONB								
CP901794S		N 0407372	8/10/94 8/23/94	10	7.10	7.10	7/25/94	.00
	ITEM TOTAL			10				.00
AS27130 FM MANDSET CORB 112 FT								
MS071394AS		N 0897210	7/13/94 7/20/94	1	6.00	7.10	4/25/94	.00
CP9520094S		S 0407339	8/10/94 8/23/94	6	5.04	5.04	7/25/94	.00
MS0801994AS		S 0408019	8/02/94 8/20/94	145	5.04	5.04	7/25/94	.00
CPCL200044		S 0416275	8/19/94 9/07/94	1	5.04	5.04	7/25/94	.00
	ITEM TOTAL			240				.00
AS27131 S 1/2 FT MANDSET CORB								
CPCL200050		N 0416291	8/26/94 9/07/94	47	4.00	4.21	7/25/94	.00
	ITEM TOTAL			47				.00
AS100794 CARTRIDGE 1.8 PORT EXPAN								
CP9520094S		N 0408019	8/02/94 8/20/94	5	304.90	343.24	7/25/94	.00
	ITEM TOTAL			5				.00

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FLOW CHART FOR THE SALE OF AFFILIATE SERVICES



PROPRIETARY

LARKIN

ATTACHMENT 2

Draft
740.1900 - Affiliate Contracts/Agreements

ATTACHMENT 2

Official Copy _____
Duplicate Copy _____

St. Louis, June , 1997

All Company 5th and 6th levels by name

bcc to all affiliate contract contacts

1997 may well be the most challenging year for our organizations since divestiture. All organizations are currently involved in the continuing evolution of SBC; the entry of SBC into the long distance market; the PacTell merger; and the implementation of new affiliate transaction guidelines. While this is an extremely exciting and challenging time for our company it is important that SWBT continue to comply with applicable federal affiliate transaction rules.

The Communications Act of 1996 is very clear that SWBT may not discriminate in favor of any 272 affiliate¹ in the provision or procurement of goods, services, facilities and information, or in the establishment of standards. In addition to this non-discrimination requirement, SWBT and all SBC 272 affiliates are strictly prohibited from providing or in any way assisting in the "installation, operation or maintenance" of the other's network.

As we move toward interLATA freedom and beyond, SBC will be under intense external scrutiny regarding our compliance with these legal requirements. It is very important that all affiliate transactions between SWBT and any 272 subsidiary fully comply with these guidelines; failure to do so could, by law, result in delay or outright loss of SBC's authority to offer interLATA services.

To assist existing in-region subsidiaries in meeting their legal and regulatory obligations, an oversight team is being established, comprised of the following representatives from Regulatory, Legal and In-region Strategic Planning. Additionally, the team will also include appropriate representatives from California and Nevada; a letter similar to this one will be circulated to the necessary PacTel organizations.

The goal of this team is to provide expedited review of all affiliate transactions between SWBT and any subsidiary that is either currently operating under 272 structural separations rules or slated to do so within the next year. This SBC 272 Oversight Team will meet each Friday for the

¹ A structurally separate affiliate that would offer manufacturing, interLATA telecommunications, interLATA information and/or alarm monitoring services.

purpose of reviewing proposed requests for affiliate services or other joint activities and to provide assistance in ensuring that the proposed transaction meets the OI&M/nondiscrimination tests.

Because we are under the legal obligation to provide a point of interface for our own affiliates that is identical to that provided to unaffiliated third parties, it is necessary to establish two separate points of contact for the SBC 272 Oversight Team:

- All 272 affiliate requests for any SWBT provided services should be directed to the customer contact point appropriate for the service being ordered (BSC, CPAT, Regional Marketing, etc.)*
- All other affiliate transactions or other joint activities involving a SBC 272 subsidiary should be submitted in writing to Mary Marks, Senior Attorney, under a heading claiming Attorney/Client privilege, in care of Corine Duft (cd4537@stlmail8.sbc.com) **prior to initiating any direct contact with the subsidiary from which the service is to be requested.** These requests should contain a clear, concise statement of the facts, together with any attachments (drawings, supporting documentation, etc.) that will service to better illuminate the issue. All requests should be submitted no latter than close of business on Wednesday.*

Please begin immediately to coordinate with this group before instituting any affiliate transactions between existing or planned 272 subsidiaries and any other SBC affiliate. Hopefully, this process will help assure compliance with provisions of federal regulations and avoid the risk of sanctions or other actions by a regulatory agency that can result from noncompliance. Further, the responsibility for adherence to these rules rests with each of us, as set forth in the Code of Business Conduct.

1) Impact of New Regulations

Several questions have arisen concerning compliance with federal and state affiliate transaction rules. The continuing evolution of SBC's corporate structure presents a new and exciting environment for all of us. Along with the excitement comes the responsibility to comply with the FCC affiliate transactions rules, the Telecommunications Act of 1996, and state affiliate transaction requirements. While the passage of legislation did give tremendous market freedoms to SWBT the affiliate transaction rules have been modified to implement the telecommunications Act.

As a result two primary questions continue to be asked of my organization:

1. What are the requirements to report and bill cross subsidiary activity?
2. What impact does cross subsidiary billing have on company budgets?

The answers to two additional questions can be used to determine if a cross subsidiary transaction, that is subject to the affiliate transaction rules, is going to take place as part of your support of Corporate restructuring:

- Is the employee providing the service an "SWBT" (*paid by*) employee?
- Is the service exclusively for the benefit of SWBT?

Is the employee providing the service an "SWBT" employee? For purposes of implementing the reorganization goals this question is answered by which company is paying the employee. If the employee is paid by SBC (or another affiliate) then that employee is an SBC employee and work performed for SWBT will be billed via the SBC allocation process. If the employee is paid by SWBT, then the employee is a SWBT employee for purposes of the affiliate transaction rules, even though that employee's manager is an SBC employee, or the employee administratively reports to another company, i.e. SBC Operations, Center for Learning, etc.. In this instance any work performed by the employee paid by SWBT that does not exclusively benefit SWBT must be billed to the benefitting affiliate. Two results ensue:

1. The benefitting affiliate is billed for the service performed
2. The benefitting affiliate's budget is impacted

The affiliate transaction rules, as required by the FCC, apply to these cross subsidiary transactions. These rules govern what SWBT must record as the *revenue derived from* the services or assets provided to an affiliate or *the cost that SWBT can record for services or assets* purchased from an affiliate. The actual application of the rules is accomplished through coordination with my organization in the affiliate contract process, which is discussed more fully below.

If the business activity that is being performed by the employee paid by SWBT is **exclusively** and **solely** for the benefit of SWBT an affiliate transaction does not exist and no cross subsidiary activity has taken place. Expenses associated with that activity are properly reported as SWBT operating expenses.

If on the other hand, you are an employee paid by SWBT, working on an issue that is not exclusively SWBT, i.e. designing training material for use by Southwestern Bell Communications, Inc., then a service is being provided and an affiliate transaction is taking place. these affiliate services must be reduced to writing and the cost associated with that activity must be recovered from the affiliated company receiving the benefit.

The following matrix identifies the significant changes to affiliate transaction rules as a result of the Report and Order in CC Docket 96-150.

SOUTHWESTERN BELL TELEPHONE COMPANY	
OVERVIEW OF CC DOCKET 96-150 - ACCOUNTING SAFEGUARDS	
CURRENT REQUIREMENTS OF SECTION 32.27 OF THE	REVISED REQUIREMENTS OF SECTION 32.27 OF THE
FCC RULES AND REGULATIONS	FCC RULES AND REGULATIONS
1. 'Assets or services sold by or transferred between SWBT and an affiliate pursuant to a tariff, shall be recorded at the tariffed rate	SAME (SWBT is allowed to use rates in publicly-filed interconnection agreements and statements of generally available terms when tariffed rates are not available)
2. Non-tariffed assets or services sold by or transferred between the carrier and an affiliate may be recorded at the prevailing price. Prevailing Price is established by a substantial number of sales to unaffiliated third parties.	SAME (Except for the definition of prevailing price.) Prevailing price is established if sales of a particular asset or service to nonaffiliated third parties encompasses greater than 50 percent of total quantity of such product or service sold by an entity.
3.	SWBT sales of facilities, services or information which are subject to the nondiscrimination requirements of Section 272 of the Telecommunications Act of 1996, may be recorded at prevailing price regardless of whether the 50 percent threshold has been satisfied.
4. For all other assets sold by or transferred from the carrier to an affiliate, the asset shall be recorded by the carrier at the higher of fair market value and net book cost.	SAME
5. For all other assets purchased by the carrier from an affiliate, the asset shall be recorded by the carrier at the lower of fair market value and net book cost.	SAME
6. For all other services a carrier purchases from or sells to an affiliate, the service shall be recorded at fully distributed cost.	For services the carrier purchases from an affiliate that exists solely to provide services to members of the corporate family, the services

	<i>shall be recorded at fully distributed cost. [The FCC retained the</i>
	<i>significant ratepayer benefit from centralized functions and the</i>
	<i>economies of scope and scale that accrues.]</i>
	<i>For all other services the carrier purchases from an affiliate, the</i>
	<i>service shall be recorded by the carrier at the lower of fair market</i>
	<i>value and fully distributed cost.</i>
	<i>For all other services the carrier sells to an affiliate, the service shall</i>
	<i>be recorded by the carrier at the higher of fair market value and</i>
	<i>fully distributed cost.</i>

There is an impact on company budgets caused by the cross subsidiary activity. It is important to remember that "budgeting" for a particular non-SWBT activity in SWBT does not supersede the affiliate transaction rules. That is, SWBT, may have initially been given the budget for an activity that is of benefit to SWBT and other subsidiaries. This does not mean SWBT does not have to bill the other subsidiaries for work SWBT employees perform on this activity that benefits the other subsidiaries. SWBT incurs the expense to provide the service and derives a revenue when the service is billed to the benefitting subsidiary. For example, budgeting for the expense associated with "Network Planning", for the family of companies, in SWBT does not remove the requirement of SWBT to bill all affiliated companies that benefit from a planning project performed by an employee paid by SWBT. The affiliate received a service that was provided by a SWBT employee, and must receive a bill for the service.

2) Overview of the Affiliate Services Process

Affiliate services are a collection of activities that Southwestern Bell Telephone Company (SWBT) performs internally that are provided to SBC Communications Inc. (SBC) and SBC's other subsidiaries (affiliate companies) utilizing primarily existing resources. The guiding strategy of affiliate services is to maximize benefit to SBC while maximizing contribution to SWBT. This strategy operates within the given of full and complete compliance with Federal and State regulatory requirements.

Each year many SWBT groups and individuals become involved with affiliated companies for the first time. This attached guidelines will give an overview of the affiliate process and provide additional sources of information. An overview of how to report these activities so appropriate

billing can take place is also provided. More detailed instructions for affiliate services are provided in Operating Practice 125.

All affiliate only services provided by SWBT must be *reduced to writing in a contract or agreement and reported to:*

Tom Powers - Area Manager - Affiliate Services
One Bell Center Room 38 - T - 08 (314) 235-9559
St. Louis, Missouri 63101

Mr. Powers will assure appropriate contracts and billing processes are established for the service and assist in the classification of the service for purposes of nonregulated accounting requirements.

With reorganization activities, SWBT will also be receiving new services from existing and newly formed affiliated companies. These types of activities also require written contracts, and are subject to the requirements of the federal affiliate transaction rules. The same issue of budget responsibility applies to these services SWBT purchases. An affiliate may be given the budget to perform a service for SWBT and other affiliates. That affiliate will generally bill SWBT and other benefiting affiliates for the services it provides. Contract administration for the purchase of services from an affiliated company must be reported to and coordinated through:

Brad Young - Area Manager - Affiliate Transactions
One Bell Center Room 38 - S- 05 (314) 235-4887
St. Louis, Missouri 631010

*SWBT may also provide services to Pacific Bell and/or Nevada Bell (the telephone company entities) in the merged environment. Written agreements have been executed and a billing process has been implemented for the provision of SWBT services to these affiliated companies. As detailed in correspondence dated April 25, 1997, under file index 740.19 - Contracts and Agreements, the Custom Work Order (CWO) process will be used to report and bill SWBT services provided to PacBell and Nevada Bell. **The CWO process will be used for these transactions between regulated telephone companies since the affiliate transaction rules do not apply to this type of regulated transaction.**² Questions regarding the types of SWBT activities and services applicable to this affiliate billing process may be referred to:*

Dennis Hall - Area Manager-Bellcore and Technology Services

² Provision of SWBT nonregulated services is not covered by these CWO guidelines and should follow normal OP35 procedures. Questions regarding the proper treatment of SWBT nonregulated services should be directed to Ray Snelling, One Bell Center, Rm 33 _____, (314) 235- _____.

*One Bell Center, Room 38-U-02 (314) 331-3571
St. Louis, Missouri 63101*

My organization is available to assist in the administrative activities of costing, contracting and billing for these affiliate services. We can also provide training, as required, for affiliate transaction contracting and reporting. Additional questions concerning affiliate service in general and specific "services" questions may be directed to Tom Powers (314) 235-9559 or Kathleen Larkin (314) 235-4907.

*Dale Kaeshoefer
Title*

Attachment to the Letter of "Dale's Title"

**Overview of the Billing Requirements for Services Provided to Affiliated Companies by
Employees Paid by Southwestern Bell Telephone Company**

Affiliate services are non-tariffed, contract offerings that are incidental to the operation of SWBT. They are not offered to non-affiliated third parties³. They are priced to recover appropriate costs as required by the FCC affiliate transaction guidelines.

This document is intended to convey a summary description of the methods that are employed in costing, pricing, contracting and billing all SWBT services to be provided to the affiliate companies by employees paid by southwestern Bell Telephone Company.

- **Cost Input**

The service provider will estimate the appropriate recurring and non-recurring labor, expense and/or capital required to provide a specific service to an affiliate company. All cost estimates will be forward looking and shall be for a period of 24 to 60 months, as appropriate. The service provider will also provide a description of the service. This information will be forwarded to Affiliate Services and Cost Study. This input will normally be collected during the first quarter.

- **Cost Studies**

The service provider will supply the above information to Cost Studies, who will develop the appropriate incremental unit cost (IUC) for each service. In addition to IUC's, Fully Distributed Costs (FDC) are developed to determine the cost that must be recovered by price in order to comply with Part 64 of the FCC rules and regulations. the results of the cost study will normally be released to Affiliate Services by July.

- **Affiliate Services Group**

The Affiliate Services organization will price affiliate services. Prices will comply with all Federal and State guidelines for affiliate transactions. *Pricing of service will be based upon the Report and Order in CC Docket 96-150 which requires:*

Services provided by SWBT to an affiliate must be recorded on the SWBT regulated books in the following manner:

- *Assets or services sold by or transferred between SWBT and an affiliate pursuant to a*

³ *Except as required by law.*

tariff, shall be recorded at the tariffed rate. (SWBT is allowed to use rates in publicly filed interconnection agreements and statements of generally available terms when tariffed rates are not available.)

- *Non-tariffed assets or services sold by or transferred between SWBT and an affiliate may be recorded at the prevailing price. Prevailing price is established if sales of a particular asset or service to nonaffiliated third parties encompasses greater than 50 percent of total quantity of such product or service sold by SWBT.*

SWBT sales of facilities, services or information which are subject to the nondiscrimination requirements of Section 272 of the Telecommunications Act of 1996, may be recorded at prevailing price regardless of whether the 50 percent threshold has been satisfied.

- *For all other assets sold by or transferred from the SWBT to an affiliate, the asset shall be recorded by SWBT at the higher of estimated fair market value⁴ or net book cost.*
- *For all other assets purchased by SWBT from an affiliate, the asset shall be recorded by SWBT at the lower of estimated fair market value or net book cost.*
- *For all other services SWBT sells to an affiliate, the service shall be recorded by SWBT at the higher of estimated fair market value or fully distributed cost.*
- *For all other services SWBT purchases from an affiliate, the service shall be recorded by SWBT at the lower of estimated fair market value or fully distributed cost, with the one exception noted below.*
- *For services SWBT purchases from an affiliate that exists solely to provide services to members of the corporate family, the services shall be recorded at fully distributed cost.*

Preliminary prices for the following year will be provided to the affiliated companies in September with final pricing addenda sent out in November, or as required for new services.

- **Contracting**

The affiliate companies have executed a General Agreement with SWBT which defines the SWBT/client business relationship and the general terms and conditions under which SWBT will provide services. The specific services to be provided to a client will be detailed in a Contract

⁴ Estimated Fair Market Value - A good faith estimate developed via methods routinely used by general business community such as appraisals, catalog listings, competitive bids, replacement cost of an asset, net realizable value of an asset, sales to third parties, etc.

Schedule which will be an attachment to the General Agreement.

The Contract Schedule will convey a description of the service to be provided, price and billing, the contract duration and service specific terms and conditions.

The Affiliate Services organization will deal with the client's contract administrator in negotiation/execution of the General Agreement and Schedules.

- **Reporting Time to Affiliate Services Activities**

1. Your time is reported, in SWMTR, as normal SWBT time. SWMTR time reporting does not automatically generate affiliate billing.
2. To initial affiliate billing all time spent in support of an affiliate project must be reported to the affiliate services group on Form SW-2681. Form SW-2681 must be received by the affiliate services group by the fifteenth calendar day of the month following the month in which the service was provided. All vouchered expenses are also reported on the SW-2681.

- **Billing and Remittance**

The frequency of billing will be determined by each Contract Schedule. Most services will be billed monthly. The Contract Schedule will determine the unit of billing appropriate for a specific service, i.e., per employee, per report, etc. The Service provider will supply the billing information to the Manager- Affiliate Services. Bill issuance and contract payment remittance will be handled by the District Manager-State Regulatory organization.